

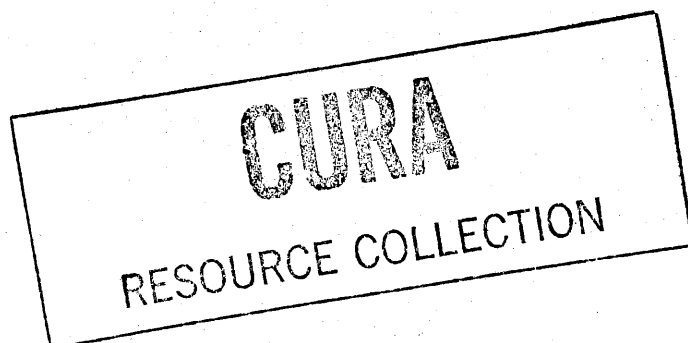
**FEDERAL CUTBACKS AND WORKING AFDC RECIPIENTS:  
A PRELIMINARY IMPACT ANALYSIS IN RURAL MINNESOTA**

by

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**CURA has supported the work of the author(s) of this report but has not reviewed it for final publication. Its content is solely the responsibility of the author(s) and is not necessarily endorsed by CURA.**

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## PREFACE

This report is part of a larger study of the impact of recent federal cutbacks on working AFDC recipients. The study is based on a longitudinal survey of a panel of 615 Minnesota families affected by the new law. Most of these families live in Minnesota's largest county, Hennepin, where Minneapolis is the county seat. In order to provide balance, working AFDC recipients in four outstate counties were added to the study. Fifty-seven families from rural Minnesota participated in the study. This report shows what changes took place in their lives during the six month period following implementation of the new federal regulations. It is based on two surveys: one concerning January 1982 just before implementation and one concerning July 1982. At the time of this writing a third survey is in progress which will show whether additional changes have taken place one year after the original cutbacks.

Two University of Minnesota units are cooperating in directing this study: the Center for Urban and Regional Affairs (CURA) and the Center for Health Services Research. In December these units produced a report of similar scope for Hennepin County.\* This report complements that report and is a companion to it. In fact, without that report, the results of this report would be tenuous because of the small number of families involved.\*\* As it is, the two reports reinforce each other, each adding depth to understanding and support to the contention that the conclusions are universal. Where appropriate, this report uses text from the Hennepin report. Where conclusions are given, they are compared with the results in the more urban Hennepin County.

Many people contributed to this study and are acknowledged here. At the University, Ira Moscovice and Mark Reynolds-Rucinski of the Center for Health Services Research, respectively provided technical guidance and computer analysis. Chris McKee of CURA typed all material adding to the visual and grammatical quality of the report. In the counties, the staffs of the Human Service Boards in Carlton County (especially Audrey Grover) and the Faribault-Martin-Watonwan (especially Ann Colgan) consortium cooperated in contacting potential respondents and tallying the characteristics of the non-respondents. Major thanks, of course, goes to the 57 families who participated in this study.

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\*Ira Moscovice and William J. Craig, "Federal Cutbacks and Working AFDC Recipients: A Preliminary Impact Analysis." Center for Health Services Research and Center for Urban and Regional Affairs, University of Minnesota, Minneapolis, Minnesota. December 1983. Out-of-print.

\*\*With 95 percent probability, percentages near 50 percent will be plus or minus 13 percent from their true value; those near 10 percent will be plus or minus 8 percent. In Hennepin County with 558 cases, ranges are less than one-third this large.

Financial support for this effort has come from a large number of external sources in addition to funds and staff support from the two sponsoring centers. The breadth of financial support is indicative of the broad interest in the topic. Those sources are acknowledged below with appreciation.

- Bush Foundation
- Hennepin County
- Minneapolis Foundation
- MN Dept. of Energy, Planning & Development
- MN Dept. of Public Welfare
- United Way of Minneapolis Area

However, the content of this report is the responsibility of the authors and is not necessarily endorsed by the Center for Health Services Research, the Center for Urban and Regional Affairs, or any of the supporting groups.

## BACKGROUND

Families on welfare but also earning money through a job have been impacted by federal cutbacks. New regulations affecting working AFDC (Aid to Families with Dependent Children) recipients were implemented in Minnesota starting on February 1, 1982. The regulations were aimed at saving public monies and at forcing people with employment capability to support themselves. Critics argued that the regulations would bring excessive hardship to those working recipients. They would be either terminated from the program or have their benefits reduced. Some would suffer through these cutbacks, but most would be forced to use other public services or quit work and return to the AFDC rolls; no money would be saved argued the critics. This report is an interim attempt to document in fact, how these people have been affected and how they have responded. It is based on a longitudinal study of a random sample of people who were working recipients in January 1982 in four rural counties in Minnesota: Carlton, Faribault, Martin, and Watonwan. A telephone survey collected data for January 1982 (before the regulations were implemented) and another survey collected data for July 1982. The results are preliminary and await further information from another survey for January 1983.

In addition to medical coverage (Medicaid/Medical Assistance) and access to food stamps, the AFDC recipient receives a cash allowance to support the family. This amount is determined by a state-specified standard of need based on family size and composition. For working recipients the cash allowance is reduced by the amount earned after deducting for various work expenses. Only when net income is less than this standard of need do recipients remain eligible for AFDC. Prior to the changes most expenses were deducted in the amounts incurred. Starting in February, strict limits were placed on the use and extent of these expenses. First, anyone with gross earnings over 150 percent of the standard of need is terminated from the program regardless of the amount of work expenses. A mother with one child would be thus terminated if she worked full time at only the minimum wage (\$3.45 per hour). Second, limits are placed on expense categories: \$160 per child per month for day care and \$75 per month for all other work expenses including taxes. Finally, a work incentive disregarding \$30 and one-third of gross income is now limited to the first four months of work and is computed on net income instead of gross. Without this incentive, working recipients will have no greater income than non-working recipients. This four month delay was also allowed those first coming under the new formula even though they continued at an old job. For many in Minnesota, program termination or a further cash reduction came June 1.

Critics predicted many negative consequences of the new regulations. People would respond in a number of ways which would be counterproductive to government or individual goals. A number of these predicted responses are listed below.

- Labor Force Participation. Many will cut back on hours or quit work altogether and collect their sole support from AFDC. Others will work more hours or take a second job trying to make up for lost income.
- Economic Status. Net income will decline and basic needs will consume a larger portion of income.
- Health Care. Those who leave AFDC will not be able to afford replacement health insurance and will delay seeing physicians and dentists except in acute conditions.
- Day Care. Fewer day care services will be used, and the arrangements will be more informal and less satisfactory.
- Household Composition. Many changes may occur including: sharing housing, moving back with parents or remarriage.
- Housing. People will move more frequently, looking for less expensive quarters and willing to accept lower quality and less space.
- Financial Emergencies. There will be a greater incidence of repossessions, evictions, utility shut-offs and food shortages.

Monitoring these characteristics can be done only through contacts with individuals, especially for those no longer on AFDC. Officials in Hennepin County approached the University of Minnesota in late 1981 to see whether such a large task could be done. The University's Center for Urban and Regional Affairs and Center for Health Services Research agreed to design and implement a longitudinal survey of those affected by the cuts.

Concerned that Hennepin County might not be typical, officials in two outstate areas were contacted to see whether they would be willing to cooperate. A northern county and three southern counties working as a consortium agreed. The northern county, Carlton, is in a non-agricultural area where the currently depressed forest products industry is a major employer. Faribault, Martin, and Watonwan counties are in extreme southern Minnesota and contain some of the richest agricultural land in the world, but the farm economy is also currently suffering from high costs of production and low commodity costs.

In these areas, as well as in Hennepin, two surveys ("before" and "after") were made and are reported here. One survey was completed asking specific questions within the above seven major aspects of their lives in January, before the new regulations took

effect. Identical questions were asked six months later concerning July. This report presents results from the two surveys. It describes the impact of the changed federal regulations and people's reactions. This report is "interim" in two senses. First, it provides an overview of what is happening, but not an in-depth analysis. Second and more importantly, six months has been too short a time period for people to have made final adjustments to their new circumstances. The period is far too short for those whose income-disregard incentive expired in June. Temporary solutions will suffice in the short-run, especially if that period is examined in mid-summer. A later report will provide a more complete analysis following a third survey in January 1983. This report offers an important look at how people are beginning to react to the new regulations. It was prepared with the intent of showing policy makers where their actions have had the desired effect and where they have not. It is hoped that with this information, policy makers in all sectors and at all levels of government can begin to consider actions to ameliorate negative impacts while reinforcing the positive impacts.

## METHODOLOGY

A random sample of working AFDC recipients was drawn and interviewed by telephone at two periods of time. The sample was drawn from county case records for all those with household income above their AFDC grant. A letter describing the study was sent by the county to every AFDC recipient in Carlton, Faribault, Martin, and Watonwan counties with an outside income in January 1982. Each was asked to participate in the study and invited to complete and return an enclosed consent form allowing the county to give their name to the University study team. Thirty-eight percent agreed to participate in the study (36 percent in Carlton and 39 percent in the three-county consortium). The counties compared respondents to non-respondents on those characteristics on file in the case records (e.g. termination or reduction, family size, age, income) and found the 75 respondents representative of their population except for a somewhat higher earned income. It was felt that this single factor did not warrant the use of stratified or other sampling strategies since the final analysis could control for respondent income.

A number of characteristics were used to define who would be eligible to be part of the study. The goal was to create a study panel of families containing at least one working adult with one or more children. This required removing those cases with monthly household income of less than \$30, where the grant covered the child only, and other special cases. There was no guarantee that the respondent was actually working in January due to a time lag in accounting for income, but they were all labor force participants, having worked in 1981. In fact, 19 percent were not working in January which was double the local county and U.S. employment rates.

A sample was then drawn and recipients interviewed by telephone. A professional survey organization, Mid-Continent Surveys, Inc., did the interviewing. For each completed interview, the respondent was paid \$10. This incentive, plus a keen interest in the topic, led to a 91 percent completion rate on the first survey or 60 respondents. The survey collected data for January 1982 and the second survey collected data for July 1982. The retention rate for the second survey was a remarkably high 95 percent. Data for two time periods on 57 families have resulted. It is from their experiences that this study has been prepared.

Throughout the remainder of this report the 57 respondents will be lumped together and treated as "rural respondents." Sixty percent (34) of the respondents come from Carlton county and this introduces a slight bias since incomes were about \$50/month lower resulting in a smaller percentage (38 percent vs. 57 percent) being terminated from AFDC in January. By July this difference had been cut from 19 percent to 9 percent,



incomes (\$15 difference) and employment rates (1 percent difference) were very comparable. It seems reasonable, therefore, to combine individuals from these two rural areas of Minnesota.

The reader should be somewhat cautious in looking at detailed analysis where only 57 cases are involved. One family represents 2 percent of the sample. The authors have attempted to be careful in their language and drawing conclusions. But the tendency to make too much of the numbers reported here, should be avoided by all. This report is best used in conjunction with the Hennepin County report. The authors have attempted to keep information from the Hennepin County report before the reader as they explain results below.

## INTRODUCTION TO RESULTS

This section of the report has two goals: to describe the respondents and to clarify the method of presentation of the results sections which follow. While many things about the respondents may change over time, others cannot. Those general characteristics are given below. Each of the sections which follow examine one aspect of the lives of these people using text and tables. Aggregate changes will be described for many specific areas, e.g. hours of day care used, but differential changes among sub-groups will also be discussed.

The survey respondent was fairly typical of all AFDC working recipients in January. She was a 31 year old white woman with a high school degree and two children. To be more specific: 95 percent were women, 93 percent were white, 86 percent had a high school diploma or more training, and the average family had 3.1 members including 1.8 children. In the pages that follow each major topic will be preceded by text which generally describe what has happened in that area. The text will be much like that in this paragraph. That section will then conclude with tables which provide more detail and depth to the interpretation. The following two tables describing the survey population are typical, except that they do not present data on change over time.

### RACE OF RESPONDENT

White	93%
Indian	5%
Chicano/Latino	2%

### EDUCATION OF RESPONDENT

Less than high school	14%
High school graduate	65%
Post-secondary schooling	21%

Results are presented for the July survey and where appropriate, the results from the January survey are presented for comparison. Unless otherwise noted, figures will represent an average for all 57 families in the study. These averages provide a good overview but cannot completely describe the range of experiences of individual families.

The indicated changes over this six-month period can stem from many causes with two of the more crucial being changes in AFDC status and changes in labor force participation. Both were examined and where any differences appear among groups, they are noted in brief statements following the table. In February (or later for a few) people were terminated (46 percent) or had their grant reduced (54 percent). A few of this last group, those already out of work, had experienced no change in their grant. Sometimes it is appropriate to differentiate reactions by these two groups and, if they are different, they are noted below each table.

More often, it is more appropriate to examine July situations by July AFDC and work status. Four possible groups result. Listed with the percentage found in the respondent group, they are:

- off AFDC and working (57 percent)
- off AFDC and not working (4 percent)
- on AFDC and working (25 percent)
- on AFDC and not working (16 percent)

These descriptions are often used in explaining a table. When appropriate, these factors may be combined into single dimensions, such as working or not.

These patterns are very similar to those of Hennepin County except that fewer people were originally terminated from AFDC. Whereas just under half were terminated outstate, two-thirds of those in Hennepin County were terminated from AFDC. This reflects a higher earned income in Hennepin. By July, when the four month income disregard rule had expired, the difference had shrunk as those terminated grew to nearly 60 percent.

Before presenting the first of the major results sections, labor force participation, it is appropriate to examine the paths various people took between their initial change in AFDC status in February, and their ultimate work/AFDC status in July. As shown in the diagram below, initial change in February AFDC status did not guarantee a specific July status. Much instability was expected and much was witnessed already by July. The most tenacious were those terminated who continued off AFDC and working in July (77 percent). Even for this group, there was a 23 percent change in status with 19 percent returning to the AFDC program. Of those who had their grant reduced in February, only one-third were still on AFDC and working. One-quarter were out of work and receiving

support from AFDC. Nearly 40 percent were off AFDC in July and supporting themselves through work. This distribution was due, in part, to the expiration of the four month income disregard incentive which made it financially unrewarding to work for some and which terminated eligibility for others. These patterns are very similar to those of Hennepin County.

#### PATHS FROM JANUARY 1982 OF 57 WORKING AFDC RECIPIENTS

February 1982		July 1982	
AFDC grant <u>terminated</u> 26 (46%)	Off AFDC and working	20	(77%)
	Off AFDC and not working	1	(4%)
	On AFDC and working	4	(15%)
	On AFDC and not working	1	(4%)

19% of those terminated in February were on AFDC in July.

AFDC grant <u>reduced</u> 31 (54%)	Off AFDC and working	12	(39%)
	Off AFDC and not working	1	(3%)
	On AFDC and working	10	(32%)
	On AFDC and not working	8	(26%)

42% of those with AFDC grants reduced in February were off AFDC in July, one-third were on AFDC and working and one-quarter were on AFDC and not working.

## LABOR FORCE PARTICIPATION

Recent changes in federal policy were expected to have a significant impact on the incentive of AFDC recipients to work. Those who were terminated were expected to either reduce (or eliminate) work in order to regain AFDC benefits or to increase their work in order to make up for lost income. Those who remained on AFDC were expected to reduce or eliminate work since the financial incentive to earn income would be reduced initially and further after the four month income disregard had expired.

Eleven of the fifty-seven respondents (19 percent) were unemployed in July. This is more than three times the unemployment rate of 5.9 percent in Faribault, Martin and Watonwan counties combined, and nearly double the rate in Carleton County (10.5 percent).<sup>\*</sup> Nearly one-third of the respondents did not have the same job in July that they had held in January. This unemployment seems to reflect the depressed economy, rather than a desire to retain AFDC benefits. Half of these people attributed the change to being laid-off or fired.

Thirty-two of the respondents were off AFDC and working in July. This group had slight increases in the number of hours worked and in hourly pay. Changes in the other groups: on AFDC and working and on AFDC and not working are difficult to assess. They contain a total of only twenty-five respondents.

Changes in AFDC status resulted in increased labor force participation, working more hours or getting a second job for nine (16 percent) of the fifty-seven respondents. Four of the nine had benefits reduced, the others had their benefits terminated.

Forty-three percent of the rural respondents classify themselves as service workers, and thirty-two percent as clerical. A similar proportion (78 percent) of Hennepin County respondents are in these job categories, but with a higher proportion of clerical (55 percent) than service (23 percent) workers. The labor force participation in both regions seems to be affected more by the depressed economy than recent federal policy changes. The higher January unemployment rate (20 percent) in the rural counties compared to 9 percent in Hennepin County indicates that the effect of the economy was felt earlier in the rural counties, particularly Carlton County. By July, labor force participation in the rural counties was almost identical to that of Hennepin County. Generally, the participation is marked by high unemployment, job turnover due to lay-offs or firings and an increase in labor force participation for those no longer on AFDC.

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<sup>\*</sup>The unemployment figures for Faribault, Martin and Watonwan counties are taken from "Southwestern Minnesota Labor Market Review," MN Department of Economic Security, Labor Market Information Center, New Ulm, Minnesota. Those for Carlton County are from "Northeastern Minnesota Labor Market Review, MN Department of Economic Security, Regional Labor Market Information Center, Duluth, Minnesota.

## LABOR FORCE PARTICIPATION

	<u>January 1982</u>	<u>July 1982</u>
<b>HOURS WORKED PER WEEK</b>	<b>28</b>	<b>26</b>
<ul style="list-style-type: none"><li>● Those off AFDC and working increased their weekly hours worked from 36 to 37.</li><li>● Those on AFDC and working increased their weekly hours worked from 27 to 22.</li><li>● Those on AFDC and not working decreased their weekly hours worked from 4 to 0.</li></ul>		
<b>HOURLY PAY</b>	<b>\$4.72</b>	<b>\$4.78</b>
<ul style="list-style-type: none"><li>● Those off AFDC and working increased their hourly pay rate from \$4.98 to \$5.12.</li><li>● Those on AFDC and working decreased from \$4.12 to \$3.94.</li><li>● Those on AFDC and not working decreased from \$4.19 to 0.</li></ul>		
<b>DIDN'T HAVE A JOB</b>	<b>19%</b>	<b>21%</b>
<ul style="list-style-type: none"><li>● 8% of those cut off AFDC in February didn't work in July, while 32% of those with grants reduced in February didn't work in July.</li></ul>		
<b>HAD A SECOND JOB</b>	<b>7%</b>	<b>11%</b>
<ul style="list-style-type: none"><li>● Those off AFDC and working increased from 6% to 13%.</li><li>● Those on AFDC and working remained constant at 14%.</li></ul>		

July  
1982

**DIDN'T HAVE SAME JOB AS IN JANUARY 1982**

**30%**

- Nearly half (47%) said the major reason was that they were laid-off or fired.
- 10% of those off AFDC and working didn't have the same job as in January. Of those who didn't have the same job, 33% (3 people) were laid-off/fired.
- 42% (5 people) of those on AFDC and working didn't have the same job as in January. Of those who didn't have the same job, 40% (2 people) were laid-off/fired.
- Of those on AFDC and not working, 50% were laid-off/fired. None had stopped working in order to avoid losing their grant.

**MADE CHANGES IN EMPLOYMENT DUE TO  
CHANGES IN AFDC STATUS**

**19%**

- Of those who reported changes, 82% got a second job or worked more hours, and 18% either quit their jobs or worked fewer hours.
- Those off AFDC and working made 64% of the changes in order to earn more money by working more.

## ECONOMIC STATUS\*

The monthly net income of respondents dropped from \$842 to \$673 during the six month study period. By comparison, the 1980 Census reports that fewer than 10 percent of Minnesota families had incomes this low. The decrease in net income was primarily due to the reductions in AFDC grants for respondents and is reflected in a lower proportion of net income generated from public sources in July. Average monthly net earnings from work remained constant for households in the study.

These findings vary significantly by AFDC/work status in July. All groups had decreased net income. Those off AFDC and working had increased net earnings from work but replaced only one-quarter of their previous unearned income. Those on AFDC and working have had a smaller loss of income despite a significant drop in earnings from work and in fact, appear to be slightly better off than those off AFDC and working. It should be remembered that only 14 families are represented and that net income includes all sources including child support and subsidized housing. Those on AFDC and not working significantly increased their unearned income but still ended up much worse off than the other groups. These groups also differed dramatically on their proportion of net income generated from public sources ranging from 10 percent for those off AFDC and working to 100 percent for those on AFDC and not working. Thus those off AFDC and working are virtually independent of public subsidies for support while those on AFDC and not working are totally dependent on public subsidies for their survival.

Monthly net expenses for basic needs increased for groceries and out-of-pocket medical expenses (due to limited health insurance coverage), and decreased for housing costs (due to lower utility bills in the summer) and day care. The percentage of net income used for basic needs increased for those working--those off AFDC and working from 73 to 81 percent, those on AFDC and working from 71 to 74 percent. For those on AFDC and not working there was a decrease from 84 to 78 percent. Overall there was an increase from 74 to 79 percent.

Thus, the economic status of respondents has been reduced over time, independent of AFDC/work status in July. All groups had reduced net income in July. Furthermore, basic needs consumed an increased proportion of net income despite lower energy costs in July.

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\* The following definitions are used in text and tables.

Net Income: Net earnings from work plus all public subsidies (including AFDC) plus income from other sources (including financial assistance from friends/relatives, child support, interest, rental income, etc.).

Unearned Income: Net income minus net earnings from work.



These same general patterns existed in Hennepin County though the drop in net income was not as severe and is due to bigger drops in both earned and unearned income in the rural counties. Housing expenses were comparable in January but rural expenses were much lower in July owing utility expenses which, though still higher than in Hennepin, were half what they had been in January. Hence the percent of income dedicated to basic needs was substantially lower than in Hennepin County in July though it had still risen during the six month period.

## ECONOMIC STATUS

	<u>January 1982</u>		<u>July 1982</u>	
	<u>Mean</u>	<u>S.D.</u>	<u>Mean</u>	<u>S.D.</u>
<b>MONTHLY INCOME*</b>				
Gross Income	\$953	\$306	\$808	\$305
Net Income	\$842	\$255	\$673	\$223
<ul style="list-style-type: none"><li>● Those off AFDC and working decreased net income from \$862 to \$710.</li><li>● Those on AFDC and working decreased net income from \$791 to \$723.</li><li>● Those on AFDC and not working decreased net income from \$702 to \$549.</li></ul>				
Gross earnings from work	\$532	\$309	\$503	\$353
Net earnings from work	\$421	\$228	\$395	\$264
<ul style="list-style-type: none"><li>● Those off AFDC and working increased net earnings from \$480 to \$563.</li><li>● Those on AFDC and working decreased net earnings from \$442 to \$319.</li><li>● Those on AFDC and not working decreased net earnings from \$227 to 0.</li></ul>				
Net earnings from work of other household members on AFDC	\$ 33		\$ 22	
<ul style="list-style-type: none"><li>● The drop was entirely from those on AFDC and working where earnings fell from \$44 in January to \$10 in July.</li></ul>				
Unearned income	\$388		\$256	
<ul style="list-style-type: none"><li>● Those off AFDC and working decreased unearned income from \$355 to \$116.</li><li>● Those on AFDC and working increased their unearned income from \$338 to \$361.</li><li>● Those on AFDC and not working increased unearned income from \$476 to \$549.</li></ul>				

\*Comparability is maintained by including income of those who were in the household and on the grant in January 1982 only.

	<u>January 1982</u>	<u>July 1982</u>
<b>AFDC grant</b>	\$ 263	\$ 99
<ul style="list-style-type: none"> <li>• Those off AFDC and working had their grants decreased from \$237 to \$0.</li> <li>• Those on AFDC and working had their grants decreased from \$235 to \$187.</li> <li>• Those on AFDC and not working had their grants decreased from \$369 to \$336.</li> </ul>		
<b>Other public subsidies</b> (e.g. food stamps, rent subsidy, fuel assistance, etc.)	98	117
<b>Percent net income from public sources</b>	46%	33%
<ul style="list-style-type: none"> <li>• Those off AFDC and working decreased from 40% to 10%.</li> <li>• Those on AFDC and working stayed constant at about 45%.</li> <li>• Those on AFDC and not working increased from 69% to 100%.</li> </ul>		

## MONTHLY EXPENSES

### Housing

Homeowners - mortgage	\$ 173	\$ 137
Homeowners - utilities	224	110
Homeowners total	<u>397</u>	<u>247</u>
or		
Renters - rent	224	238
Renters - utilities	103	45
Renters total	<u>327</u>	<u>283</u>

- Housing costs did not vary by AFDC/work status.

<b>Groceries</b>	138	166
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- Grocery costs did not vary by AFDC/work status.

	<u>January 1982</u>	<u>July 1982</u>
<b>Day Care</b>	74	57
<ul style="list-style-type: none"> <li>• Those off AFDC and working decreased day care costs from \$85 to \$76.</li> <li>• Those on AFDC and working remained constant at approximately \$60.</li> <li>• Those not working decreased expenditures from \$56 to \$0.</li> </ul>		
<b>Medical Expenses</b>	9	19
<ul style="list-style-type: none"> <li>• Those off AFDC and working increased out-of-pocket medical expenses from \$9 to \$24.</li> <li>• Those on AFDC and not working had a limited amount of medical expenses out-of-pocket.</li> <li>• Those on AFDC and working increased expenses from \$14 to \$23.</li> </ul>		

#### USE OF NET INCOME TO MEET BASIC NEEDS

<b>Percent net income for housing (including utilities)</b>	45%	41%
<ul style="list-style-type: none"> <li>• All groups decreased their percent net income for housing--off AFDC and working from 44 to 42%, on AFDC and working from 42 to 37%, and on AFDC and not working from 53 to 41%.</li> </ul>		
<b>Percent net income for food</b>	18%	27%
<ul style="list-style-type: none"> <li>• Those off AFDC and working increased from 17 to 26%.</li> <li>• Those on AFDC and working increased from 19 to 23%.</li> <li>• Those off AFDC and not working increased from 22 to 37%.</li> </ul>		
<b>Percent net income for day care</b>	9%	8%
<ul style="list-style-type: none"> <li>• Those off AFDC and working maintained at a constant 10%.</li> <li>• Those on AFDC and working increased from 8 to 9%.</li> <li>• Those on AFDC and not working decreased from 8 to 0%.</li> </ul>		
<b>Percent net income for out-of-pocket medical expenses</b>	1%	3%
<ul style="list-style-type: none"> <li>• Those off AFDC and working increased from 1 to 4%.</li> <li>• Those on AFDC and working increased from 3 to 4%.</li> </ul>		

## HEALTH CARE

When on AFDC, recipients and their children had health insurance coverage provided by Medicaid, though those employed often had insurance through their work place as well. Eligibility for Medicaid ends with termination from AFDC making health care potentially more costly and less accessible to the individual.\* Those lacking adequate health insurance coverage are expected to delay seeing physicians and dentists except for acute conditions.

Almost all of the families had a usual source of health care, with nearly two-thirds using a private physician. Prior to the cutbacks, all of the respondents had some form of health insurance coverage. In July, nearly one-fifth of the fifty-seven respondents, and almost one-third of those off AFDC and working had no coverage. Families reported paying a much higher percentage of medical bills out of their own money. Those off AFDC and working paid over half their medical expenses out-of-pocket.

Delays in seeing doctors and dentists occurred most often for those off AFDC and working. While, overall, delays in seeing health care providers decreased after the cutbacks, the number of delays for this group remained consistently high. Over one-fourth of the group delayed seeing a physician, citing most often cost or not wanting to miss time from work as a reason. Delays in seeing a dentist doubled in this group.

The effect of changes in federal policy on the health care of AFDC recipients is generally the same in the rural counties as it is in Hennepin County, with some slight differences. The rural respondents were more likely to delay seeing a health care provider than the Hennepin County respondents before and after the cutbacks. In addition, Hennepin County recipients increased their use of HMO's, an option not readily available to the rural recipients. HMOs do not exist within the borders of the counties in the study. In both Hennepin County and the rural counties those off AFDC and working are most severely affected by the changes in federal policy. Many have no insurance coverage and are paying a majority of health care bills out-of-pocket. They are more likely to delay seeing doctors or dentists, citing directly or indirectly, monetary considerations as the reason. There is much potential for severe problems for this group.

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\*A Minnesota Federal Court decision partially ameliorated this problem by ruling that increases in income could not lead to immediate termination of Medicaid. For those terminated from AFDC because of increased earnings, Medicaid eligibility was extended four months.

## HEALTH CARE

### HAD A USUAL SOURCE OF HEALTH CARE

	<u>January 1982</u>	<u>July 1982</u>
<b>Respondents</b>	90%	91%
<b>Children</b>	93%	97%

- Those who continued to receive AFDC grants were more likely to have a usual source of care in July 1982 (96% vs. 88%) than those off AFDC.

### TYPE OF USUAL SOURCE HEALTH CARE

	<u>January 1982</u>		<u>July 1982</u>	
	<u>Respondents</u>	<u>Children</u>	<u>Respondents</u>	<u>Children</u>
<b>Doctor's office</b>	65%	67%	63%	65%
<b>Community clinic</b>	14%	14%	21%	26%
<b>HMO</b>	0%	2%	2%	2%
<b>Hospital Outpatient Department</b>	11%	9%	4%	4%
<b>Hospital Emergency Room</b>	0%	0%	2%	0%
<b>Other</b>	0%	2%	0%	0%

- HMOs do not exist within the borders of any of the counties studied.
- No major differences among groups.

### DELAY SEEING HEALTH PROVIDERS

	<u>8/81 to 1/82</u>	<u>2/82 to 7/82</u>
<b>PHYSICIAN</b>		
<b>Didn't want to lose time or pay from work</b>	21%	16%
<b>Didn't have enough money to pay doctor</b>	18%	19%
<b>DENTIST</b>		
<b>Afraid of diagnosis</b>	14%	4%
<b>Didn't want to lose time or pay from work</b>	12%	5%
<b>Didn't have enough money to pay dentist</b>	11%	23%

- For those off AFDC and working, delays in seeing a physician because they did not want to lose time or pay from work remained consistently high at 28%.
- For those off AFDC and working, delays in seeing a physician due to cost also remained consistently high at 25 - 28%.
- For those off AFDC and working, delays in seeing a dentist due to cost doubled from 16% to 34%.

## HEALTH INSURANCE COVERAGE

	<u>January 1982</u>		<u>July 1982</u>	
	<u>Respondents</u>	<u>Children</u>	<u>Respondents</u>	<u>Children</u>
Medicaid	65%	61%	46%	46%
Medicaid and private	35%	39%	4%	4%
Private	0%	0%	28%	25%
None	0%	0%	19%	18%

- 50% of those off AFDC and working had private health insurance coverage in July 1982, 31% had no health insurance coverage and 15% still had Medicaid.
- 45% of the children of this group had private insurance coverage, 29% had no health insurance, and 16% had Medicaid.

## PAYMENT SOURCE FOR HEALTH CARE BILLS

	<u>8/81 to 1/82</u>	<u>2/82 to 7/82</u>
Medicaid	77%	39%
Private	14%	15%
Self/other	8%	46%

- Those off AFDC and working paid 54% of their health care bills out-of-pocket.

	<u>July 1982</u>
MADE CHANGES IN HEALTH CARE DUE TO CHANGE IN AFDC STATUS	12%

## DAY CARE

Five of every six families (84 percent) have children aged 12 or younger. Most of these children will need day care when their parents are working. For those on AFDC, day care expenses are reimbursed, but now with an upper limit of \$160 per month per child. For those off AFDC, there is no obvious choice of how to provide this care. People can try to pay out of their own pockets, look for less expensive providers, provide care through themselves or other members of their household, or seek other forms of assistance.

The tables below describe what changes people had made by July.\* Those not working no longer use such day care. Despite major increases in the use of day care, those working managed to reduce the monthly cost of day care. The decrease was achieved in a variety of ways, but primarily through a reduction in the use of day care centers.

In Hennepin County a similar increase in use and reduction in cost was accompanied by a small but growing number of people dissatisfied with their children's day care. With few exceptions, general trends in the rural counties have mirrored those in Hennepin County. With the small sample it is difficult to detect this particular trend in the rural counties. Based on the Hennepin County results and the similarities between the responses in the two studies, it might be conjectured that, along with the increased use and decreased cost of day care in the rural counties, an increasing number of rural AFDC recipients will become dissatisfied with their children's day care.

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\*Some of these indicated changes must be viewed with caution due to the possibility of non-comparable use patterns in a period when children are on summer vacation from school.



## DAY CARE

	<u>January 1982</u>	<u>July 1982</u>
<b>FAMILY MONTHLY OUT-OF-POCKET EXPENDITURE FOR DAY CARE</b>	\$ 74	\$ 57

- Costs for all groups had dropped by July.
- For those not working, expenditures had dropped from \$56 to nothing.
- Those off AFDC and working had cut costs from \$85 to \$76.
- Those on AFDC and working kept costs constant at about \$60.

<b>PERCENT OF CHILDREN WHOSE DAY CARE IS FINANCIALLY SUPPORTED BY OTHERS</b>	1%	6%
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- County is source.
- All three children in July are in families where recipient is off AFDC and working.

<b>AVERAGE NUMBER OF HOURS PER WEEK OF OUTSIDE DAY CARE PER FAMILY</b>	32	32
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- Those not working had eliminated day care, dropping from an average of 39 hours.
- Major increase for those off AFDC: from 29 to 45 hours.
- Those on AFDC and working decreased from 31 to 27 hours.

### MAJOR SOURCES OF DAY CARE

Day care center	28%	7%
Relative	14%	16%
Friend/neighbor	34%	11%
Babysitter	2%	42%
No one	17%	11%
Another child in the house	0%	12%
Other or mix of above sources	5%	2%

- These figures camouflage much change resulting from the stoppage of day care by those no longer working.
- No significant difference between the workers on AFDC and off AFDC.

January  
1982

July  
1982

**MADE CHANGES IN DAY CARE DUE  
TO CHANGE IN AFDC STATUS**

18%

- For those changing, the major change was to cheaper day care (40%), or using more day care (20%).
- Those off AFDC made most changes (27%).
- Only 9% of those on AFDC made changes.

**CHILDREN GETTING UNSATISFACTORY DAY CARE**

4%

8%

- All January dissatisfaction came from those on AFDC and not working in July. Quality was the reason.
- All July dissatisfaction came from those off AFDC and working. Quality and costs were the reasons.

**CHILDREN NEEDING DAY CARE BUT  
NOT RECEIVING IT**

0

0

## HOUSEHOLD COMPOSITION

Changes in AFDC status appeared to have little effect on household composition in either the rural counties or in Hennepin County.

	<u>January 1982</u>	<u>July 1982</u>
<b>LIVED WITH SPOUSE</b>	3 (5%)	6 (11%)
● All three who got married were off AFDC and working.		
<b>LIVED WITH PARENTS</b>	2 (4%)	1 (2%)
<b>LIVED WITH UNRELATED INDIVIDUAL</b>	7 (12%)	6 (11%)
<b>NUMBER OF HOUSEHOLD MEMBERS</b>	3.1	3.0
<b>NUMBER OF CHILDREN</b>	1.8	1.8
<b>NUMBER OF CHILDREN 0 - 12</b>	1.4	1.4
● Slightly higher for those on AFDC and not working (1.6).		

## HOUSING

A majority (60%) of rural AFDC recipients rent an apartment or house; the remaining 40 percent own their homes. The proportion of rural recipients owning their homes is double the proportion of Hennepin County recipients who own their own homes.

In July, none of the fifty-seven rural respondents were living with relatives at no cost. Nine (16%) respondents moved in the six month period following the cutbacks. Cost and greater living space were given most often as reasons for moving.

In both the rural counties and Hennepin County changes in AFDC status had little effect on housing status. Only two of the fifty-seven respondents reported changes in housing due to changes in their AFDC benefits.

	<u>January 1982</u>	<u>July 1982</u>
<b>RENTAL/OWNERSHIP STATUS</b>		
Rent	60%	63%
Own	39%	37%
Live with relatives - no cost	2%	0%
<b>AVERAGE NUMBER OF ROOMS (excluding bathrooms)</b>	5.3	5.0
	<u>8/81 to 1/82</u>	<u>2/82 to 7/82</u>
<b>NUMBER OF MOVES</b>		
None	84%	84%
One	16%	14%
More than one	0%	2%
	<u>2/81 to 1/82</u>	<u>2/82 to 7/82</u>
<b>MAJOR REASON FOR LAST MOVE</b> (among 9 people who moved)		
Cheaper to live there	23%	33%
More space	15%	22%
Overall quality better	31%	10%
Closer to work	8%	4%
Closer to friends/relatives	23%	0%
Change in household composition	0%	9%
Evicted	0%	4%
Other reason	0%	44%
		<u>2/82 to 7/82</u>
<b>MADE CHANGES IN HOUSING DUE TO CHANGE IN AFDC STATUS</b>		
Moved to cheaper or subsidized housing		2 (4%)

## FINANCIAL EMERGENCIES

The majority of financial emergencies were threatened or actual utility shut-offs or an inability to buy sufficient food. The number of respondents facing utility shut-offs nearly doubled in the period following AFDC cutbacks. Most responded by working out a payment plan. None of them sought nor received help from fuel or emergency assistance programs.

The number of respondents who could not buy sufficient food decreased from 24 (42 percent) in the six months prior to the cutbacks, to 18 (32 percent) following the cutbacks. A plausible explanation is an increased food budget in the warmer months using money freed up by lower utility bills. Half of those who were unable to buy sufficient food responded by eating less or buying cheaper food.

The rural recipients faced the same financial emergencies as the Hennepin County recipients--utility shut-offs and food shortages. Fifteen percent of those threatened with utility shut-offs in Hennepin County received help from fuel or emergency assistance programs. None of the rural respondents who faced this problem received help of this kind. It seems that the rural recipients are not accessing the available assistance programs. Problems with food shortages and utility payments could become much more severe in the winter months.

## FINANCIAL EMERGENCIES

	<u>8/81 to 1/82</u>	<u>2/82 to 7/82</u>
<b>UTILITY SHUTOFFS</b>		
Threatened	19%	25%
Shutoff	0%	7%
<ul style="list-style-type: none"> <li>• Most responded by working out payment plan.</li> <li>• None got help from fuel or emergency assistance programs.</li> </ul>		
<b>REPOSSESSIONS</b>		
Threatened	4%	4%
Repossessed	0%	2%
<b>EVICTION/FORECLOSURE</b>		
Threatened	2%	0%
Eviction/foreclosure	0%	2%
<b>STOPPED DAY CARE DUE TO COST</b>	2%	2%
<b>COULD NOT BUY SUFFICIENT FOOD</b>	42%	32%
<ul style="list-style-type: none"> <li>• One-half responded in July by eating less or cheaper food, 11% borrowed money from friends/relatives, 6% used emergency food shelves/food shelters, and 11% ate meals at friends/relatives.</li> </ul>		

## PERCEPTIONS OF LIFE

Observable facts do not provide a complete picture of the impact of federal cutbacks on AFDC recipients. At the close of the interview, respondents were asked to rate their feelings about different aspects of their lives on a 1 to 10 scale with 10 meaning best, 5 meaning about average, and one meaning the worst feeling. Below are the average ratings for July. Data on January perceptions could not be accurately collected since the first survey was completed late April.

The respondents rated aspects related to their homes, jobs and everyday needs for health care and day care as well as their overall standard of living as above average. There were little differences among groups in these areas. One exception is family health care, where those off AFDC and working gave much lower ratings than the other groups.

The respondents generally gave below average ratings to financial considerations and future opportunities. Those off AFDC and working felt better about these areas than the other groups, particularly in their chances of making it on their own.

The ratings given by the rural recipients were consistently higher than those in Hennepin County except for their children's future job opportunities. However the general trends are very similar. Those off AFDC feel better about financial matters and future opportunities, but worse about how everyday needs are met. The rural recipients, like those in Hennepin County, generally feel that they are getting by but do not expect much improvement in the future.

## PERCEPTIONS

	<u>July 1982 Rating</u>	
	<u>Average</u>	<u>S.D.</u>
<b>OVERALL STANDARD OF LIVING</b>	5.6	2.2
• Those on AFDC and not working were slightly lower (5.1).		
<b>JOB - PAY, BENEFITS, SECURITY (workers only)</b>	6.0	2.7
• Those on AFDC and working were slightly lower (5.0).		
<b>JOB - HOURS AND AMOUNT OF WORK (workers only)</b>	6.0	2.9
• Those on AFDC and working were slightly lower (5.0).		
<b>HOME - AMOUNT OF SPACE</b>	7.0	2.6
• No difference among groups.		
<b>HOME - CONVENIENCE OF LOCATION</b>	8.2	2.1
• Those on AFDC and working were slightly higher (9.1).		
<b>HOME - CONDITION OF BUILDING</b>	7.6	2.2
• No difference among groups.		
<b>NEEDS MET - FAMILY HEALTH CARE</b>	7.3	2.9
• Those off AFDC and working were significantly lower (6.2).		
<b>NEEDS MET - CHILDREN'S DAY CARE</b>	8.4	2.1
• No difference among groups.		
<b>CHILDREN'S SCHOOL</b>	8.0	2.1
• No difference among groups.		
<b>CHILDREN'S FUTURE JOB OPPORTUNITIES</b>	4.0	2.4
• Those on AFDC and not working were slightly lower (3.3).		
<b>HOUSEHOLD INCOME</b>	4.4	2.3
• Highest for those off AFDC and working (4.7).		
• Lowest for those on AFDC and working (3.6).		
<b>FINANCIAL - SECURITY</b>	3.6	2.6
• Highest for those off AFDC and working (4.0).		
• Lowest for those on AFDC and not working (2.7).		
<b>CHANCES FOR GETTING AHEAD</b>	4.4	2.6
• Highest for those off AFDC and working (4.7).		
• Lowest for those on AFDC and not working (3.3).		
<b>CHANCES FOR MAKING IT ON YOUR OWN</b>	5.9	3.1
• Highest for those off AFDC and working (6.6).		
• Lowest for those on AFDC and not working (4.3).		



## CONCLUSIONS

In general, working AFDC recipients affected by new federal regulations on February 1, 1982, seemed to be getting by six months later. This survival has not been attained without various adjustments and some dissatisfaction. There are early indications that crises may loom in the future, particularly in utility shutoffs and health care for those now off the AFDC caseload. The situation could get worse if the economy remains depressed, unemployment rates continue high, and as recipients become aware of the expiration of their four month income disregard incentive.

The respondents present a good picture of how AFDC recipients who were working in January had responded to the federal cutbacks six months later. The preliminary findings for hypothesized changes in each of the seven major areas presented in the beginning of this report include:

- Labor Force Participation. A substantial number have increased their labor force participation as they strive to maintain independence from public subsidies. However, there appears to be little incentive remaining for those on AFDC to start or continue working.
- Economic Status. Net income had declined for all groups and basic needs consumed a larger portion of income despite lower energy costs in July. There is a large group of working recipients who were terminated from AFDC and who have maintained their independence from the program. However, half of those remaining on AFDC are no longer working and are totally dependent on public subsidies for their survival.
- Health Care. Twenty-one percent of those off AFDC and working, and 37 percent of their children had no health insurance in July. This has resulted in over half their health care bills being paid out-of-pocket and in significantly increased delays in their seeing physicians and dentists. The ability to get health care, when necessary, has become a major problem for those no longer on AFDC.
- Day Care. Those not working had eliminated day care. Those working were using more hours (partly because they were working more hours and partly because their children were not in school in July), but they had found cheaper sources. There are a growing number of respondents dissatisfied with the day care their children are getting and a growing number of children needing, but not getting, day care.
- Household Composition. Contrary to expectations, no substantial changes were made in household composition.

- Housing. No substantial changes occurred in this area. In fact people moved less frequently than in the six months prior to the cutbacks. For those who did move, cost saving had increased in importance as the major reason for moving.
- Financial Emergencies. Food shortages continued to be a problem for nearly one-half of this low-income population. Threats or actual utility shutoffs increased, burdening nearly one-third of the respondents.

Three things could have happened to working AFDC recipients in February: termination, grant reduction, or grant increase for a few. This initial change only partly accounted for an individual's July status with respect to AFDC and work. Those with the largest earnings were terminated and largely continued to support themselves through work. Those with lower earnings had their AFDC grants reduced. Only one-third of this group was still on AFDC and working. Another thirty-nine percent had subsequently gone on to support themselves, but the remaining one-quarter were out of work and supported solely by AFDC and other public subsidies.

By July, these people had sorted themselves into three main groups: working and off AFDC, working and on AFDC, and not working and on AFDC. Each group could be expected to behave somewhat differently in reaction to their new circumstances. Those who were off AFDC and working had a high income but not the highest of the three major groups. They had lost the most, but replaced about one-quarter of that income through working more hours and taking second jobs. This required using more day care, but of different and less satisfactory types. This group's biggest potential problems were with health care. One-third of the respondents in this group were without health insurance. As a consequence, this group was paying half its medical expenses out-of-pocket and therefore delaying trips to the doctor and the dentist. Nevertheless, this group most felt able to "make it on their own."

Those still on AFDC and working in July had suffered the smallest loss of income; their net income was slightly higher than the prior group. Their incentive to work, however, should diminish as they become aware of the expiration of the four month income disregard. They had experienced the same problems of lack of food and utility shut-offs as respondents as a whole. Their health care needs were met by Medicaid.

Those on AFDC and not working had the lowest net income. Their health care needs were covered by Medicaid, but they had stopped day care altogether. Most lost their jobs rather than quitting them and their incentive to work has probably been diminished due to the expiration of the income disregard. More than any other group, they have low perceptions about their financial situation now and in the future, including job opportunities for their children. They have become totally dependent on public subsidies for their survival.

Compared with Hennepin County, these findings are almost identical. In fact, the authors were able largely to retain the text of this concluding section. The few differences could be attributable to the small sample in the rural areas. Differences which appear to be noticeable are summarized below:

- Fewer people were originally terminated from the program, but by July those off AFDC in the rural counties were nearly equal to Hennepin. The initial lag was due to lower earnings from work which meant that the four month income disregard incentive had to expire before people were terminated from AFDC.
- Unemployment rates for this population were originally lower in Hennepin County, but both areas showed about 20 percent unemployment by July.
- Net income, which had been comparable in January 1982, was \$100 per month lower in the rural counties by July. Those off AFDC and working are simply making less money than their counterparts in Hennepin County. Those on AFDC experienced larger drops in their earnings than their counterparts. This drop was especially noticeable in those on AFDC and working whose earnings fell from \$442 to \$319 as a result of decreases in both hours worked and rate of pay.
- Cost is the most important reason for delay in seeing a physician or dentist in both Hennepin and the rural counties. More so than in Hennepin, rural respondents delayed these visits because of not wanting to lost time or pay from work.
- Use of day care was comparable, but in rural counties the shift away from formal (and costly) day care centers was more noticeable. They were replaced by "baby sitters."
- Home ownership in the rural counties was twice as high at 40 percent. Since homeowners are responsible for their own fuel payments, the percentage of housing costs comprised of utilities was higher in the rural counties and much higher in January. By July, total housing costs were lower in the rural counties than in Hennepin, leaving more money available for groceries. Food shortages were 10 percent less noticeable in rural counties in July and 14 percent less than in Hennepin.
- Rural perceptions were one-half to one point more optimistic in all areas except children's future job opportunities which were one point lower.

Six months is too short a period for people to have made final adjustments to their new situations or experience crises which may cause new instabilities. A third survey to be conducted in February 1983 will provide a more complete picture of the impact of federal cutbacks on working AFDC recipients. Major problems for this entire low income

group continue to be access to sufficient food and increasingly includes threats or actual utility shut-offs. Those now off AFDC and working have higher net incomes but day care and, to a much larger extent, the lack of health insurance coverage and increased out-of-pocket medical expenses may become major problems for those striving to remain independent of public support.